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FM AMEMBASSY KUALA LUMPUR
TO RUEHC/SECSTATE WASHDC 2322
INFO RUCNARF/ASEAN REGIONAL FORUM COLLECTIVE
RUEHZU/ASIAN PACIFIC ECONOMIC COOPERATION
RUEHNE/AMEMBASSY NEW DELHI 0867

UNCLAS SECTION 01 OF 02 KUALA LUMPUR 000082

SIPDIS

STATE PASS USTR - WEISEL AND BELL
STATE PASS FEDERAL RESERVE AND EXIMBANK
STATE PASS FEDERAL RESERVE SAN FRANCISCO TCURRAN
SINGAPORE PASS TO SBAKER
USDOC FOR 4430/MAC/EAP/M.HOGGE
TREASURY FOR OASIA AND IRS
GENEVA FOR USTR

E.O. 12958: N/A

TAGS: [EINV](#) [ECON](#) [PGOV](#) [ETRD](#) [MY](#)

SUBJECT: MALAYSIA: NO NEW PROTECTIONIST INVESTMENT PROPOSALS

REF: A. A: SECSTATE 04706

[1](#)B. B: 08 KUALA LUMPUR 987

[1](#)1. (SBU) SUMMARY AND COMMENT: To post's knowledge, the Government of Malaysia has not proposed or enacted any new protectionist investment measures, either to restrict sovereign wealth funds in particular or foreign investment more broadly. However, numerous existing preferences for ethnic Malays and restrictions on foreign ownership continue to affect foreign investors adversely (see Investment Climate Statement on www.state.gov for details). New investment projects already require approval on a case-by-case basis from the GOM; therefore, it would not require an overt change in policy to block potential investors. However, post has seen no evidence of a less welcoming posture toward foreign investment. Moreover, inflows continue to rise. As an export-dependent economy, Malaysia can be expected to beat the drum for free trade and an open investment climate. GOM officials are prescribing economic reform, rather than protectionism, as the best remedy for the global financial crisis; however, in practice promises of reform tend to be forgotten quickly. End summary and comment.

FDI PART OF MALAYSIA'S DEVELOPMENT PLAN

[1](#)2. (U) Malaysian politicians continue to take credit for increases in foreign direct investment (FDI) inflows which rose from USD 6 billion in 2006 to USD 8 billion in 2007. Approvals for new manufacturing projects from the U.S. rose from USD 878 million in 2007 to USD 1.8 billion during the first ten months of 2008. Malaysia welcomes foreign direct investment as an essential component of its development plan.

MALAYSIA'S REACTION TO THE GLOBAL ECONOMIC CRISIS

[1](#)3. (U) A November economic stimulus package included new spending in an array of areas (ref B) but restrictions to trade and investment were not part of the program. The GOM is consulting with the business community, both domestic and foreign, to develop a second stimulus package which is expected by April or May. One foreign businessman who was involved in these consultations told Econ Counselor that the focus would be on infrastructure -- roads, bridges, etc. In recent weeks the GOM has focused on limiting layoffs, including by encouraging companies to cut salaries and hours before laying off workers and, when workers must be let go, to dismiss the foreign workers first. Fines for breaking employment contracts with foreign workers will be waived. Approvals to hire new foreign workers will be given only when no qualified Malaysian is available.

MAKING ALL THE RIGHT NOISES

14. (U) GOM officials publicly prescribe economic reform as the best remedy for the global economic crisis, pointing out the need to attract FDI and improve Malaysia's global competitiveness to survive it. In his keynote address to the Malaysian Capital Markets Summit on December 4, Deputy Prime Minister Najib Razak, who also serves as Finance Minister and is expected to take over as Prime Minister in March, underlined the importance of restoring investor confidence in Malaysia. "We will work hard to address issues of concern faced by foreign and local investors and continue to gradually liberalize the Malaysian economy, particularly the services sector. In this era of globalization, liberalization is no longer an option. It is a necessity for Malaysia in order to remain competitive and relevant to investors. We shall gradually remove hindrances to foreign investments and ensure that Malaysia remains competitive and productive."

15. (U) In his speech to the Institute of Foreign Relations and Diplomacy of Malaysia on January 30, Minister of Foreign Affairs Rais Yatim underlined the need to "stay ahead of the competition, particularly in opening and diversifying markets for our products and attracting foreign investments." In support of a "Buy Malaysian" campaign launched by the Minister of Domestic Trade and Commercial Affairs, Prime Minister Abdullah has made public statements calling on Malaysian consumers not to overlook Malaysian-made products. However, the campaign does not entail any new preferences or other measures designed to advantage Malaysian-made products;

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it is only a publicity campaign.

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